

December 15, 2003  
ILR 2003-E

President Al Mansell  
Speaker Martin R. Stephens  
Audit Subcommittee Members  
State Capitol Building  
Salt Lake City, UT 84114

**Subject: Purchase Card Usage in Higher Education**

Dear Legislators:

Our office has been requested to conduct a limited review of purchase card usage in Utah's institutions of higher education. We have been asked to determine if university policy and control procedures actually followed by the various cardholders, in the institutions of higher education, are sufficient to ensure that public funds are used appropriately. The aim of this limited review is to identify potential problems with the controls governing the purchasing card programs which could lead to misuse or abuse. As a result, we identified that policies and practices for approving purchasing card purchases need strengthening and certain policies should be more explicit. However, this limited review did not uncover any actual examples of purchasing card abuse or fraud.

The state of Utah has ten institutions of higher education. The purchasing card, or P-Card, program has been implemented in varying degrees by nine out of the ten institutions of higher education. The objective of the P-Card program is to facilitate purchasing which would normally be done through petty cash or through a central purchasing department. It allows each department within a university freedom to purchase as needed. It also distributes the workload previously handled at the purchasing department level, easing their burden. The P-Card can improve purchasing efficiencies by reducing paper work and requiring less staff involvement in the purchasing process. Not only does it simplify the purchasing process, but it also allows the cardholder direct access to the vendor and commodity being purchased.

We completed a limited review of P-Cards at two of Utah's institutions of higher education and visited two other institutions. In our limited review, at the first two institutions, we examined university policies, procedures, and actual purchasing card transactions. Our visit of two other universities was very brief—we examined purchasing card policies and spoke with the Purchasing Department representative. This limited review identified two items of concern:

1. We believe the policies and practices regarding the approval of purchasing card transactions need further strengthening.
2. We also believe that the policies over purchasing card charges for certain types of business meals and gifts should be more explicit.

These two items of concern were the most common issues identified. This report will address each concern.

### **Purchase Approval Policies and Practices Need Further Strengthening**

In two out of the four universities we reviewed, we identified that the policies and practices which govern the approval of purchase card purchases need tighter controls to ensure the card is being used appropriately. Some of the current policies and practices may be ineffective for screening for abuse. First, we identified evidence which suggests a lack of supervisory review of some P-Card purchases. Second, in some instances, purchase approval procedures are inappropriate when subordinate employees approve the purchases of their supervisors. Approval of purchases should be completed by persons in supervisory positions. Finally, the practice of allowing cardholders to approve their own purchases or allowing reciprocal approval between cardholders does not provide adequate control. All of the above practices can lead to abuse.

We determined the purchasing card programs at all of the institutions of higher education have controls and policies. The purchasing card is a relatively new program for Utah's institutions of higher education and as the program matures we expect additional controls will be implemented. Although we did find prescribed controls setting forth the management of the purchasing card program, below is a discussion of control areas which need further strengthening.

### **Evidence Suggests a Lack of Supervisory Review of Purchases**

From our limited review of the two universities, evidence suggests that some supervisors are either not reviewing the purchases made or are not aware of the necessity of each item that is purchased. We believe the supervisory review is the most important control in the purchasing card program to ensure that public funds are used appropriately. We define a supervisor as the person who approves a cardholder's purchases as appropriate and necessary.

We randomly selected a number of supervisors from the two universities and questioned them on their knowledge of purchases made by the cardholders under the direction of that supervisor. In eight out of nineteen departments reviewed, we identified evidence indicating a lack of supervision over purchasing card purchases.

In one interview, even after reviewing the receipts, the supervisor still wasn't sure why the items were purchased.

In another interview, the cardholder had made a purchase on the purchasing card which should have been purchased through another source and the supervisor wasn't even aware the purchase was made. When we asked the supervisor about the purchase, he said that the cardholder makes so many purchases that he is unable to review all of them. A supervisor's inability to review all purchases made on a purchasing card goes to the root of the problem. If supervisors are unable to review all purchases, the system is at risk for abuse.

A third supervisor we interviewed is uncomfortable with the fact that he is in charge of approving all of the purchases made on the P-Card of one cardholder who purchases items for three different areas within a department. However, the supervisor was only in charge of one area in the department. Although the supervisor was able to explain some of the purchases made, there were several purchases he could not explain and knew nothing about. The supervisor told us that this responsibility makes him uncomfortable.

During our review we also discovered a cardholder loaning his card to other university employees who are not approved cardholders. A department head told us that is done more often than we realize. Loaning one's purchasing card is a clear violation of the university's purchasing card policies. In the one instance, we believe the supervisor was aware of and approved the practice of loaning the purchase card. Consequently, we are concerned about the potential lack of control and direction from cardholder supervisors.

We also believe some purchasing card purchases made by cardholders are not being reviewed by their supervisors because the cardholder's supervisor is a dean or department chair who does not have the time to review numerous purchases. In those circumstances we believe a subordinate employee, such as the dean or department chair's administrative assistant, could perform a provisional review of the cardholder's purchases as long as a third party, such as the institution's internal audit department or purchasing department auditors performed follow-up audits at regular intervals. The practice of allowing a third party to follow-up with their own audit builds independence into the system.

We believe, the supervisory review is the most important control over the proper use of purchasing cards because this is the person responsible to know what was purchased and why. However, we have not identified any type of review by either the internal auditor or purchasing department auditors to ensure this control is functioning properly. We believe purchasing card audits of the departments could be further strengthened by including an examination of the supervisory approval. This examination should, at a minimum, ensure that the supervisor can demonstrate a clear knowledge of what was recently purchased, that the item is being used for institutional purposes, and that proper approval was obtained.

### **Approval of Purchases Should Move Up The Chain of Command**

Two out of the four institutions we contacted allow a subordinate employee to approve the purchases made by his or her superior. Even though we have no evidence that this is a common practice, it violates the concept of adequate controls. The very nature of the position of a subordinate employee approving his or her supervisor's purchases is an ineffective control. In theory, this approval process can cause problems between an employee and a supervisor if the employee questions a purchase made by the supervisor. In addition, it seems unlikely that employees would question supervisors on purchases made. We do not believe the institutions should allow this type of a control since it puts the employee in an awkward position and can allow an environment that invites risk of abuse.

However, it may be necessary to implement subordinate or peer review if a department chair or dean holds a purchasing card. In these instances, as in those addressed above pertaining to third party reviews, if a subordinate employee can complete the provisional review, we believe the institution should establish (at regular intervals) an independent review of the purchasing card transactions by the internal audit department or purchasing department auditors. Consequently, these reviews would replace the supervisory approval. The results of the independent review would then be reported, similar to all other internal purchasing card reviews.

### **Self and Reciprocal Approval Could Lead to Abuse**

The practice of allowing cardholders to approve their own purchases or allowing reciprocal approval, such as an administrative assistant reviewing the purchases of his or her supervisor and the supervisor reviewing the assistant's purchases, between cardholders is certainly infrequent. However, this practice was observed and amounts to a serious lack of control and is not a prudent business practice. We believe that two of the four institutions we contacted had opportunities for or allowed a few cardholders to approve each others' purchases or cardholders to approve their own purchases. Self and reciprocal purchase approval gives the appearance of unsound regulations which could breed an environment of abuse.

The Institute of Internal Auditors, a recognized authority on internal auditing, defines controls as being adequate if "designed in a manner that provides reasonable assurance that the organization's risks have been managed effectively." Allowing cardholders to approve their own purchases or to approve each other's purchases does not provide a reasonable assurance that the organization's risks have been managed effectively.

In two out of the four universities we reviewed, certain cardholders were allowed to approve their own purchases. In one of those universities, deans and directors are allowed to approve their own purchases up to \$10,000. Safeguarding public funds rests in the policies which protect how those funds are spent. Policies that allow those funds to be spent by the same person responsible for approving the expenditure do not provide sufficient control, opening the door to misuse, possibly leading to abuse.

Purchasing card controls can be further strengthened by assuring an independent supervisory review. If one cannot be provided within the department, then these P-Cards controls need to be reviewed by regularly scheduled audits from either the institutions' internal audit, purchasing departments, or Board of Regents if no other audit function is available to the institution.

### **Policies over Purchasing Card Charges For Meals and Gifts Should Be More Explicit**

Due to inconsistencies we observed, we believe policies about using the purchasing card to purchase business meals, gifts, and flowers for employees should be more explicit. Some institutional departments allow the use of the purchasing card to purchase meals, gifts, and flowers while others do not. We believe the institutions of higher education could provide more specific policies on what is an appropriate use of public funds as it pertains to purchasing business meals and gifts for employees.

## **Departments Differ on Allowable Expenditures**

We observed purchasing cards being used to purchase business meals, office treats, gifts and flowers. In contrast, we are aware that other departments control or do not allow many of these items to be purchased with the purchasing card.

Although we observed numerous business meals purchased on the purchase cards, we did not individually audit them and expect they are generally acceptable. We believe some departments allow the purchasing card to be used to take staff out to lunch for various reasons. And then, there are departments who forbid charging meals to the purchasing card. Some departments require the name of the people attending the meal on the receipt but not the purpose for the meal. In one case, one department put two separate meals on different days on their purchasing card for the same person's retirement celebration. When we asked the supervisor why they paid for two lunches for this one retiring individual he said one of the meals was "sponsored" by the students and the other was "sponsored" by the staff. However, the purchasing card was used to pay for both meals.

In three of the institutions we contacted there was no clear explanation of what might be considered an appropriate business meal. For example, is it appropriate for a supervisor to use the purchasing card to buy lunch for a staff member to discuss office issues? Or is it appropriate for six or seven staff members of one department to attend a lunch paid for on the purchasing card for the purpose of interviewing a single applicant? We observed both situations.

While three of the four institutions let the various departments determine what they allow and how they will define a business meal, the other institution allows no business meals of any kind to be charged on their purchase card. We believe each institution, rather than each department, should define what a business meal is and clarify the appropriateness of charging a business meal on the purchasing card.

We also identified varied practices on using the purchasing card for items such as office treats, birthday cakes, flowers, and gifts. One office we reviewed purchases candy and minor decorations for the office on a purchasing card, while another office buys birthday cakes, baby gifts, and flowers for hospitalized employees. When we pointed these items out to one purchasing director he commented that he was unclear on what is appropriate and what is not. He said he would like further guidance on what is appropriate to purchase as it pertains to certain types of meals, gifts, flowers, and other such items.

We believe gifts from employees to other employees (i.e. birthdays, weddings, sickness) should not be paid by the state but should be paid for by the employees themselves. In our opinion,

institutional policies and procedures need to clearly indicate that. The practice of allowing each department to decide allows inconsistency and does not ensure appropriate use of state funds.

**Recommendations:**

1. We recommend that the institutions of higher education, or Board of Regents if the institution does not have a dedicated purchasing card audit function, extend their audits of purchasing card usage to include the supervisory review.
2. We recommend that the institutions of higher education examine purchasing card policies and practices to ensure the approval of card purchases is made at the appropriate level or other controls exist.
3. We recommend that the institutions of higher education replace policies allowing self and reciprocal approval of purchases with more appropriate control-conscious policies.
4. We recommend that the institutions of higher education review and clarify purchasing card policies in relation to business meals and employee gifts or other miscellaneous expenditures.

Our above recommendations do not include extending this informal review to a formal audit because the institutions we consulted agreed to make the necessary changes to their purchasing card audit function and controls based on this limited review. However, if the Audit Subcommittee desires, we can perform a follow-up audit in six months to ensure the changes have been implemented.

In summary, we hope this report addresses the raised concerns regarding the expenditure of public monies through the use of a purchasing card. If you have any further questions, please call our office at (801) 538-1033.

Sincerely,

Wayne L. Welsh, CPA  
Auditor General

**This Page Left Blank Intentionally**



## **Agency Responses**

December 8, 2003

Wayne L. Welsh, CPA  
Auditor General  
130 State Capitol  
Salt Lake City, Utah 84114-0151

Dear Wayne:

Thank you for your review of purchase card usage in higher education. The University of Utah understands the benefits and potential risks of delegating authority for small purchases via purchasing cards. Since the inception of this program we have required all cardholders to complete training on card use and we conduct regular audits of all cardholders.

We are continually looking for ways to strengthen internal controls and appreciate the suggestions made in the course of this review. Regarding the recommendations mentioned in the report that apply to the University of Utah:

- We are taking steps to ensure supervisory review is appropriate and effective by strengthening the audit process in this area and providing additional training.
- We will provide additional written guidelines for certain purchases, including more guidance on the use of purchasing cards for business meals. Such use is prohibited for most cardholders, but is approved in some circumstances.

Thank you for your time and effort. We have appreciated the efforts of John Schaff and DeAnna Herring in conducting this review, and express our thanks to them also.

Sincerely,

Arnold B. Combe  
Vice President

December 15, 2003

Mr. Wayne L. Welsh, CPA  
Auditor General  
130 State Capitol  
Salt Lake City, UT 84114-0151

Dear Wayne:

The University is appreciative of the review of P-card usage in higher education your office recently completed. As you know, the use of P-cards is a fairly recent development at WSU and we are eager to review and improve the controls associated with the program. P-cards provide potential benefits to organizations in streamlining small purchases, but these benefits do not come without risks. We are anxious to understand those risks and mitigate them.

We consider the recommendations of your audit team of John Schaff and DeAnna Herring to be fair. The University has already begun to move forward on necessary procedural and policy changes to address the issues that were raised in the review.

Thank you for your service to the University. We appreciate the professionalism and constructive recommendations we received from the review.

Sincerely,

Norm Tarbox  
Vice President for Administrative Services